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Director's Message

Fiscal year 1997 marks the tenth year the Montana Lottery has been part of Montana Several important changes and events occurred this year.

In February, the Montana Lottery initiated a whole new way of business, when it relaunched its Scratch product by introducing nine new Scratch games, and began the operation of an Instant Ticket Validation and Accounting System at all Lottery retailers across the state. This system makes it easier for retailers to handle the accounting of Scratch tickets, and the validation of winning tickets. A winning scratch ticket can now be redeemed at any Lottery retailer up to $250 all across the state.

In May 1997, Daily Millions, Montana's first daily game, was introduced. Players have a chance to win $1,000,000 every day, besides chances to win $5,000, $100 and $2. This game, played with thirteen other lotteries, has provided an opportunity for Montanans to play a completely different kind of game.

During the summer of 1997, the Montana Lottery celebrated its birthday with Second Chance Drawings for our players, and opportunities for our retailers to win one of fifty mini-vacation packages. We designed both promotions to thank our customers—both players and retailers—for ten great years.

We're grateful for the continued support of our players, retailers, commissioners, the governor, and the state of Montana as we enter our second decade

Sincerely,

Gerald J. LaChere

Gerald J. LaChere
Director

Commissioner's Report

Top L to R Robert Crippen, Butte, Becky Erickson, Glasgow, Larry O'Toole, Plentywood
Bottom L to R: Carol Thomas, Great Falls, Cliff Brophy, Columbus

The Montana Lottery Commission consists of citizens of the State of Montana. We are appointed by the Governor to serve the people of Montana. Our oversight responsibilities include setting policy in conjunction with the Director, and ensuring the security and integrity of Lottery operations.

The Lottery's tenth year has been rewarding, as we worked with the Director and his staff to ensure a profitable future for the Lottery. Implementation of the Instant Ticket Validation and Accounting System, and introduction of Daily Millions, Montana's first daily game, are the first steps to a revitalized, newly profitable Lottery

We commend Director LaChere and his capable staff, and look forward to good things in the Lottery's next year.

Sincerely,

Becky Erickson

Becky Erickson
Chair

Looking Back

In November 1986, the people of the state of Montana passed Referendum 100, which created the Montana Lottery. The Lottery began sales in June 1987, and since then has been a source of entertainment for the citizens of Montana, and a revenue-producer to help fund state programs.

The Lottery has also helped many businesses around the state by providing a revenue stream through Lottery commissions and bonuses. Over $15.6 million in commissions and bonuses have been paid to Lottery retailers across Montana, and many retailers experience winning experiences from the Lottery customers who enter their doors every day.

In addition, the many winners every year have benefited from the Lottery's existence. Over $134 million in prizes has been paid to winners in ten short years. The millionaires created by Montana's association with multi-state games—Lotto*America, Powerball, Tri-West Lotto, Daily Millions—have been just a small part of the number of Montana Lottery players who have experienced a winning experience. Every day, customers claim prizes ranging from a free ticket to a more significant cash prize. Winners have also won 4X4 fully loaded pickup prizes in Scratch games.

The Montana Lottery has added value to the entertainment landscape, offered Montanans chances to win large and small prizes, and has helped Montana business people generate traffic in their stores and increase their revenue.

The Games

SCRATCH

- Introduced in June 1987
- 21 percent of total sales in fiscal year 1997
- Top prizes ranged from $200 to $15,000
- Winnings tickets with a value of $250 and under are now claimed at Lottery retail locations across Montana
- An estimated $3.5 million paid to players in the form of prizes in fiscal year 1997
- Over $438,000 paid to more than 600 retailers statewide in the form of commissions and bonuses

POWERBALL

- Introduced in April 1992
- Currently operated in conjunction with 20 other lottery jurisdictions
- 43 percent of the Montana Lottery's total sales in fiscal year 1997
- Five numbers are drawn from one field of 45 numbers, plus another (POWERBALL) number from a second field of 45 numbers
- POWERBALL has nine winning combinations
- In fiscal year 1997, six tickets matched the first five numbers to win the second tier prize of $100,000
- Another 47 tickets matched four of the first five numbers and the POWERBALL to win the second tier prize of $5,000
- Other prizes in the game range from $1 to $100
- On average, there are over 3,200 winning tickets per draw
- Montana's second POWERBALL winner, Tom Clark of Kalispell, will receive $11 million over the next twenty years, payable in annual installments of approximately $550,000. He won the April 5, 1997 drawing.
- Other players won over $2 million in the 104 drawings in fiscal year 1997
- Montana Lottery retailers received over $588,000 in commissions in fiscal year 1997

- Introduced in May 1991
- 19 percent of total sales
- Five numbers are drawn from a field of 37
- During fiscal year 1997, 22 jackpot winners won or shared jackpots ranging from $20,000 to $140,000
- On average there were 1,196 winning sets of numbers per draw
- In fiscal year 1997, there were 124,449 winning sets of numbers
- MONTANA CA$H winners shared over $2.4 million
- Over $264,500 was paid to retailers in the form of commissions
- 3,860 tickets matched four of five numbers to win $200 each
- 120,567 tickets matched three of five numbers to win $5 each

- Introduced in Montana on May 12, 1997, less than two months before the end of fiscal year 1997
- 1% of the Montana Lottery's total fiscal year sales
- Top prize is $1,000,000 in cash
- Other prizes include $5,000, $100, $5 and $2
- Drawings held every night
- Played in Montana and twelve other states
- Players pick 2 numbers out of 21, in three fields (Red, White and Blue)
- $203,303 in prizes were won by Montana Daily Millions players
- Lottery retailers earned $18,436 in commissions in fiscal year 1997

- Introduced in February 1994 in Montana, South Dakota and Idaho
- Game was revised and relaunched in February 1995, with improved overall odds and an all-cash jackpot
- Six numbers are chosen from a field of 33
- 17 percent of sales in Montana
- On each drawing, approximately seven tickets won $250; 219 tickets won $10; and over 2,600 tickets won $1
- In August 1996, Will Schuh of Billings won $736,410 on a ticket he bought at Heights County Market in Billings
- In fiscal year 1997, there were 272,257 winning sets of Tri-West Lotto numbers
- $236,050 was paid to retailers in commissions

10 Years

Ten Years of Success

November 4, 1986

Legislative Referendum 100, the Montana Lottery Act, passes by 69 percent of the popular vote, carrying each of 56 counties.

June 24, 1987

The first Scratch game, "Pot of Gold," goes on sale.

July 15, 1987

The Lottery game show, *The Big Spin*, premieres in a 30-minute special. Seven lucky finalists share $26,000.

April 3, 1989

Governor Stephens signs legislation which
*Allows more prizes to be paid to players
*Allows bonuses to be paid to retailers for sales increases.

August 30, 1989

"Pickup Plenty," Montana's first merchandise Scratch game, is launched. The top prize is a 4X4 pickup.

November 9, 1989

Lotto*America is introduced in Montana.

December 28, 1989

The last *Big Spin Show*. 460 finalists share over $7.7 million.

January 13, 1990

Katherine Summers of Basin becomes Montana's first Lotto*America jackpot winner, winning $1,740,000.

April 4, 1990

First *Big Win* event. Ten finalists share $205,000 in prizes.

May 9, 1990

Danny Hopper of Fort Smith wins $3 million playing Lotto*America.

July 1, 1990

Legislature changes where Lottery money goes—from Teachers Retirement Fund to the Office of Public Instruction School Equalization Account.

September 12, 1990

Final *Big Win* show in Billings.

February 2, 1991

Karin Brier and Mindy Bowman of Missoula share a $7.3 million Lotto*America prize.

May 6, 1991

First day of sales for Montana's own Lotto game, *MONTANA CASH*.

July 1, 1991

A legislative change provides 6.1 percent of Lottery profits to the Board of Crime Control, to fund administrative costs associated with juvenile detention centers in Montana.

November 23, 1991

Darlene Sharp of Havre claims a $47 million Lotto*America jackpot.

April 11, 1992

Sever and Esther Enkerud of Glasgow claim a $2 million Lotto*America jackpot.

April 19, 1992

Lotto*America is replaced by POWERBALL, which offers nine ways to win, improved overall odds, and a larger jackpot.

July 1, 1992

A larger portion, 9.1 percent, of the Lottery's profits are now transferred to the Board of Crime Control.

February 26, 1994

TRI-WEST LOTTO, a game played in conjunction with Idaho and South Dakota, holds its first drawing.

April [illegible], 1994

Montana Lottery introduces "More Prizes" and "Bigger Prizes simultaneously, to test a new sales concept of offering multiple games in the retail locations.

February 4, 1995

TRI-WEST LOTTO is revamped and introduced, with improved odds, an all-cash jackpot, and set prize amounts at low-tier prizes.

March 1, 1995

First BINGO Scratch tickets go on sale, Montana's first extended play, $2 game.

July 1, 1995

All of the Montana Lottery's proceeds are now transferred to the State of Montana General Fund.

July 22, 1995

Father and son Jack and Russ Sherrod of Sun Prairie win $31.4 million in POWERBALL.

February 4, 1997

Montana Lottery introduces Instant Ticket Validation and Accounting System and nine new Scratch games. Provides players the ability to cash winning scratch tickets up to $250 at any Lottery retail location.

April [illegible], 1997

Tom Clark of Kalispell becomes Montana's second POWERBALL jackpot winner, claiming $11 million.

May 12, 1997

Montana Lottery introduces Daily Millions, a daily on-line game featuring a chance to win $1 million every day.

June 24, 1997

Ten Years of success!

Looking Ahead

The past ten years have been exciting, busy times. Emphasis in fiscal year 1997 was on the Lottery's popular Scratch products.

In the next year, look for even more significant changes. The Lottery will continue to reach out to our players, becoming ever more responsive to the public's desire for unique designs and styles of Scratch tickets.

In fiscal year 1998, we will focus on revitalizing our on-line products, while we continue to strive to keep our Scratch tickets growing in revenue and profit. The technology introduced in February 1997 will continue to add to the ease of play for our players, and ease of handling for our retailers. Those technological changes will be enhanced as we move to the future.

We will continue to make our Lottery more responsive to our players, while we examine our market, and work to make the Lottery even more a part of Montana. The lottery industry itself will change dramatically and Montana will examine new trends to determine their feasibility for Montana. A key component of our strategic plan will be the ongoing investment in player research, and continual training of our staff in providing outstanding customer service.

We will continue to look toward making the Lottery an important part of Montana's entertainment landscape, as we offer players exciting new Scratch and on-line games, and offer retailers opportunities to increase their Lottery commissions.

Looking forward to the future!

Auditor's Report

To the Commissioners
Montana State Lottery
Helena, Montana

We have audited the accompanying balance sheets of the Montana State Lottery (Lottery), an enterprise fund of the State of Montana, as of June 30, 1997 and 1996 and the Statements of Revenues, Expenses and changes in Retained Earnings and Cash Flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Montana State Lottery and are not intended to present the financial position of the State of Montana and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State Lottery, an enterprise fund of the State of Montana, as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As described in Note 14 to the financial statements, the Montana State Lottery adopted GASB No. 28, Accounting and Financial Reporting for Securities Lending Transactions during fiscal year 1997.

Olness & Associates, PC

August 15, 1997

Financial Statements

BALANCE SHEETS
June 30, 1997 and 1996

	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 2)	$ 2,232,830	$ 2,482,222
Accounts receivable, less allowance for doubtful receivables of $8,768 in 1997 and $-0- in 1996	926,943	763,372
Inventory	501,464	166,963
Other current assets (note 3)	81,072	120,218
TOTAL CURRENT ASSETS	3,742,309	3,532,775
FIXED ASSETS		
Furniture, fixtures and equipment	703,509	692,935
Accumulated depreciation and amortization	(425,707)	(358,169)
	277,802	334,766
OTHER ASSETS		
Long-term receivable (note 4)	1,846,016	1,721,065
LIABILITIES AND FUND EQUITY	$ 5,866,127	$ 5,588,606
CURRENT LIABILITIES		
Accounts payable	$ 399,680	$ 304,801
Estimated prize liability (note 5)	1,312,993	1,208,856
Transfer obligations (note 6)	1,741,375	1,645,131
Other current liabilities (note 7)	267,925	370,479
TOTAL CURRENT LIABILITIES	3,721,973	3,529,267
LONG-TERM LIABILITIES (note 8)	1,905,111	1,820,296
	5,627,084	5,349,563
FUND EQUITY		
Contributed capital (note 10)	239,043	239,043
COMMITMENTS AND CONTINGENCIES (notes 9 and 13)	–	–
	$ 5,866,127	$ 5,588,606

See Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

Years Ended June 30, 1997 and 1996

	1997	1996
OPERATING REVENUES		
Instant ticket games	$ 6,063,023	$ 6,331,627
On-line games	22,134,337	25,429,787
Miscellaneous	95,833	2,000
TOTAL OPERATING REVENUES	28,293,193	31,763,414
COST OF TICKET REVENUES		
Instant ticket prize expense	3,523,744	3,525,849
On-line ticket prize expense	10,808,835	12,388,451
Retailer commission	1,545,518	1,765,565
On-line vendor fees	2,594,942	2,910,743
Cost of tickets sold	415,472	383,879
TOTAL COST OF TICKET REVENUES	18,888,511	20,974,487
NET OPERATING REVENUES	9,404,682	10,788,927
OPERATING EXPENSES		
Advertising	688,342	873,088
Advertising production	188,343	221,194
Bad debts	13,780	–
Communications	145,497	202,699
Contractual services	193,883	164,166
Depreciation	96,633	89,578
Management fees	93,456	91,300
Multi-state operating fees	72,350	82,108
Other	51,232	49,986
Personal services	1,151,566	1,170,008
Repairs and maintenance	44,239	60,086
Supplies and materials	148,911	116,905
Utilities and rent	94,238	91,461
Travel	24,613	29,056
TOTAL OPERATING EXPENSES	3,007,083	3,241,635
OPERATING INCOME	6,397,599	7,547,292
NONOPERATING REVENUES (EXPENSES)		
Interest income	211,662	242,539
Security lending income	7,573	15,336
Security lending costs	(7,165)	(14,856)
Loss on disposal of fixed assets	(6,409)	(34,709)
TOTAL NONOPERATING REVENUES (EXPENSES)	205,661	208,310
INCOME BEFORE OPERATING TRANSFERS	6,603,260	7,755,602
OPERATING TRANSFERS OUT		
Montana State General Fund	6,603,260	7,803,062
NET INCOME (LOSS)	–	(47,460)
RETAINED EARNINGS, BEGINNING OF YEAR	–	47,460
RETAINED EARNINGS, END OF YEAR	$ –	$ –

See Notes to Financial Statements

Financial Statements

STATEMENTS OF CASH FLOWS
Years Ended June 30, 1997 and 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales	$27,959,571	$31,255,410
Cash paid to suppliers for goods and services	(6,592,907)	(6,675,019)
Cash paid to employees	(1,150,158)	(1,157,084)
Cash paid for prizes	(14,141,738)	(15,227,395)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,074,768	8,195,912
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers out:		
Montana State General Fund	(6,507,016)	(8,534,174)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(6,507,016)	(8,534,174)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of fixed assets	–	11,705
Purchase of fixed assets	(29,215)	(91,155)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(29,215)	(79,450)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	211,663	252,192
Security lending income	7,573	15,336
Security lending costs	(7,165)	(14,856)
NET CASH PROVIDED BY INVESTING ACTIVITIES	212,071	252,672
NET DECREASE IN CASH AND CASH EQUIVALENTS	(249,392)	(165,040)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,482,222	2,647,262
CASH AND CASH EQUIVALENTS AT END OF YEAR	$2,232,830	$2,482,222

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS—CONTINUED

Years Ended June 30, 1997 and 1996

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	1997	1996
Operating income	$ 6,397,599	$ 7,547,292
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	96,633	89,578
Changes in assets and liabilities		
Increase in accounts receivable	(163,571)	(238,096)
(Increase)/decrease in inventory	(334,501)	226,885
Decrease in other current assets	39,145	31,660
Increase in long-term receivable	(124,951)	(259,476)
Increase in accounts payable	78,015	79,162
Increase in estimated prize liability	104,137	514,440
Decrease in other current liabilities	(102,553)	(50,936)
Increase in long-term liabilities	84,815	255,403
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 6,074,768	$ 8,195,912

See Notes to Financial Statements

Notes to the Financials

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Montana State Lottery (hereafter referred to as the Lottery) was created in November 1986 by a referendum vote of the people of Montana. Section 23-7-101, Montana Code Annotated (MCA) establishes the provision of the code under which the Lottery operates. The Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set ticket prices, determine the number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games with other states, and prepare financial reports. The Lottery is attached to the Montana Department of Commerce for administrative purposes.

Disposition of revenue is a minimum of 45 percent for prizes and a maximum of 10 percent for commissions to sales agents. The remaining revenue, less operating expenses, is transferred to the Montana State General Fund.

Reporting Entity

The Lottery is included in the State of Montana's financial statements as an enterprise fund. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Lottery's financial statements as a reporting agency.

Basis of Accounting

The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations similar to private business enterprises where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition

Sales of instant lottery tickets are made to licensed retailers who market the tickets to the public on a commission basis. Revenue is recognized when tickets are activated by retailers. Tickets activated but not sold by retailers may be returned for credit. Sales are reduced for estimated ticket returns.

Sales of on-line lottery tickets are made to licensed retailers who market the tickets through the use of computerized terminals on a commission basis. Revenue is recognized on drawing dates. Tickets sold in advance of future drawing dates are recorded as deferred revenue until the ticket becomes valid for a drawing.

Cash and Cash Equivalents

Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash deposited with banks and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Inventory

Inventories consist of tickets and supplies. Ticket inventory includes instant lottery tickets that are carried at cost using the specific identification method. Tickets are charged to cost of sales when activated. Unsold tickets are charged to cost of sales upon the end or cancellation of the related game. Supply inventory is carried at cost and expensed as used.

Prizes

Prepaid prizes represent prizes purchased and on-hand in advance of game awards. Prize expense is recognized based on a predetermined prize structure for each instant ticket and on-line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

Intangible Assets

Intangible assets represent the per ticket cost paid to Automated Wagering, Inc. for advance on-line ticket sales. These ticket sales, also referred to as deferred revenue, represent tickets sold prior to June 30, 1997 and 1996 for drawings held subsequent to year-end.

Fixed Assets

Fixed assets are recorded at cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of fixed assets, the cost and related accumulated depreciation or amortization is removed from the accounts. Gain or loss on disposal is reflected in nonoperating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of two to ten years.

Contributed Capital

Contributed capital represents equity acquired through contributions from vendors and the State of Montana.

Compensated Absences

State employees earn vacation leave ranging from fifteen to twenty-four days per year based on years of service. Vacation leave may be accumulated to a total not to exceed twice the maximum number of days earned annually. Sick leave accumulates at a rate of twelve days per year with no maximum accumulation. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

Reclassifications

Certain reclassifications have been made to the 1996 financial statements in order to conform to the 1997 presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	June 30 1997	1996
Short-term investment pool	$1,621,145	$2,099,672
Cash on deposit with State Treasurer	601,535	372,400
Cash in revolving deposit account	10,000	10,000
Petty cash	150	150
	$2,232,830	$2,482,222

Reference to the audit of the State of Montana would identify GASB No. 28 disclosures and the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account

was $10,336 and $10,889 at June 30, 1997 and 1996, respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value

NOTE 3 – OTHER CURRENT ASSETS

	June 30	
	1997	1996
Other current assets consist of the following		
Cash collateral - security lending transactions	$43,646	$96,750
Prepaid prizes and expenses	10,546	9,745
Intangible assets	9,665	9,423
Due from other state agencies	12,665	–
Employee advances	4,550	4,300
	$81,072	$120,218

NOTE 4 – MULTI-STATE LOTTERY ASSOCIATION

Joint Venture Association

In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. The Lotto*America/Powerball game, Tri-West Lotto game and Daily Millions game are presently the only games operated jointly by the members. Each lottery participating in MUSL is represented on the Board of Directors.

Prize Reserve Fund Receivable/Payable

As a member of the MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The contributions are to be used to fund unanticipated prize claims. All funds remitted and the related interest earnings will be returned to the Lottery upon leaving the association, less any portion of unanticipated prize claims, which may have been paid from the fund.

The Lottery contributes to the reserve fund through the set-aside for prizes. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

During 1990, the MUSL Board created the unreserved accounts to record interest earned on the various prize reserve funds when the prize reserve fund balance is not below the predetermined ceiling amount. The amounts in the unreserved accounts may be used at the Board's discretion.

The long-term receivable balance of $1,846,016 and $1,721,065 at June 30, 1997 and 1996, respectively, represents the Lottery's share of the MUSL prize reserve fund that had a balance of $92,733,659 and $71,230,398 for 1997 and 1996, respectively. The long-term liability balance of $1,739,432 and $1,652,728 at June 30, 1997 and 1996, respectively, represents the Lottery's share of the total estimated prize liability.

Lotto*America Prizes and Investments

Prizes awarded to Lotto*America grand prize winners are paid in twenty annual installments funded by investments in United States Treasury zero coupon bonds. Bonds purchased on behalf of Montana source winners are held in trust by MUSL with the Montana State Lottery as beneficiary. As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the grand prize winners on the anniversary date of each win.

At June 30, 1997 and 1996, MUSL held United States Government zero coupon bonds in trust for the Montana State Lottery winners with respective par values of $81,206,123 and $75,414,077 and respective market values of $50,924,260 and $46,045,929.

The Montana State Lottery has seven Lotto*America/Powerball/Tri-West winners. The combined total of future prize payments owed is $81,205,000 and $75,413,000 at June 30, 1997 and 1996, respectively. Total annual payments due over each of the next five years is $5,208,000 annually and $55,165,000 thereafter. The present value of future prize payments approximate the current market value of the bonds held in trust for the Montana State Lottery winners.

Multi-State Lottery Association Financial Position

Information related to the Multi-State Lottery Association's audited financial statements is as follows.

	June 30	
	1997	1996
Total assets	$1,437,619,763	$1,243,916,193
Total liabilities	1,437,328,433	1,243,700,474
Total net assets	291,330	215,719
Total liabilities and net assets, unrestricted	$1,437,619,763	$1,243,916,193
Total revenues	$3,175,623	$2,261,391
Total expenses	3,100,012	2,226,666
Increase in unrestricted net assets	$75,611	$34,725

NOTE 5 – ESTIMATED PRIZE LIABILITY

The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game.

NOTE 6 – OBLIGATION TO TRANSFER FUNDS

The Montana State Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB 83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. Transfer obligations outstanding at June 30, 1997 and 1996 were $1,741,375 and $1,645,131, respectively.

NOTE 7 – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	June 30	
	1997	1996
Estimated return ticket liability	$ –	$ 58,321
Due to other state agencies	120,350	133,468
Liability under security lending transactions	43,646	96,750
Deferred on-line revenue	103,929	81,940
	$267,925	$370,479

Notes to the Financials

NOTE 8 – LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

	June 30 1997	1996
Prize liability Multi-State Lottery Association	$1,739,432 165,679	$1,652,728 167,568
Accrued compensated absences	$1,905,111	$1,820,296

NOTE 9 – LEASES

The Lottery leases its office, administrative and warehouse facilities under a lease agreement expiring February 2002. Rent expense under operating leases charged to operations was $78,000 for the years ended June 30, 1997 and 1996.

NOTE 10 – CONTRIBUTED CAPITAL

No changes occurred in contributed capital for the years ended June 30, 1997 and 1996.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Pension Plan

The Lottery participates in the Public Employees Retirement System (PERS). PERS is a statewide mandatory cost-sharing multiple employer defined benefit retirement plan which covers all employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the following address: Public Employees Retirement System, Public Employees Retirement Division, P.O. Box 200131, 1712 Ninth Avenue, Helena, MT 59620-0131, (406) 444-3154.

Contribution rates for the plan are required and determined by State law. The contribution rate for 1997, expressed as a percentage of covered payroll, for both the employer and employee was 6.7%.

The amounts contributed to the plan during the years ended June 30, 1997, 1996 and 1995, were $115,558, $117,222 and $109,114, respectively, and were equal to the required contributions for each year.

Deferred Compensation Plan

The Lottery's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The plan is administered by Benefits Corporation on behalf of Great West Life Insurance Company through a contract with the State of Montana. The amount of compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts deferred under the plan created under Internal Revenue Code Section 457 remain the property of the State of Montana until paid, subject only to claims of the State of Montana's general creditors. Participants' rights under the plan are equal to those of general creditors of the State of Montana in an amount equal to the fair market value of the deferred account for each participant.

NOTE 12 – RELATED PARTY TRANSACTIONS

During the ordinary course of business, other State agencies provide certain services and supplies to the Lottery. During 1997 and 1996, total payments to other State agencies were approximately $319,000 and $324,000, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Instant Tickets

The Lottery has signed an agreement to purchase instant game tickets from Dittler Brothers, Inc., through June 1997. The Lottery has the option to extend the agreement for an additional four, one-year periods, through June 2001.

Maintenance Contract

The Lottery has signed an agreement for computer hardware and software maintenance with Stratus Computer, Inc., for $3,044 per month. The agreement may be canceled by either party with proper notification.

On-line Vendor

The Lottery has signed a contract with Automated Wagering International, Inc. to provide on-line terminals, central computers and a telecommunications network through November 1998. The contract provides for payments to be based on a percentage of weekly sales.

Prize Contingencies

Certain Big Spin prizes awarded are payable to the winners in annual installments spanning seventeen to twenty years with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance carrier under which purchased annuities will provide the required level of payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance carrier will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the gross amount of $2,484,559 and $2,734,559 at June 30, 1997 and 1996, respectively, if the insurance carrier defaulted on their payments.

Advertising

The Lottery signed a contract with Banik & Associates to provide advertising services for $8,400 per month through December 1999.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 1997, the Lottery adopted GASB No. 28, Accounting and Financial Reporting for Securities Lending Transactions. GASB No. 28 establishes requirements for reporting underlying securities and collateral received in security lending transactions, related income and expenses and disclosing the activity in the participating entity's financial statements. The adoption of this statement had no effect on the Lottery's retained earnings for the year ended June 30, 1996.

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